



DEFENSE LOGISTICS AGENCY
THE DEFENSE CONTRACT MANAGEMENT COMMAND
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AUG 28 1997

IN REPLY
REFER TO AQOG

MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT
DISTRICTS
COMMANDERS, DCMC CONTRACT ADMINISTRATION
OFFICES

SUBJECT: DCMC Memorandum No. 97-039, Redesigning DCMC's Source Acceptance
Policies and Procedures (INFORMATION)

This is an INFORMATION Memorandum. Target Audience: All DCMC personnel.

At the May 97 DCMC Commander's Conference, Maj Gen Drewes stressed our role in being "part of the solution." One such opportunity is Management Reform Memorandum (MRM) #10, which tasks DCMC to lead a reassessment of quality assurance policies and procedures in DoD (attch 1). The Process Action Team (PAT) on MRM #10 is an outgrowth of a team started in response to a March 20, 1997, memorandum from the Acting Under Secretary of Defense (Acquisition & Technology), to look at source inspection on commercial items (attch 2).

Neither we nor our customers can afford to do anything that does not add value to the goals established by MRM #10. Oversight, including source involvement (surveillance and inspection), that is unwarranted is non-value added. Knowing the difference is the key -- and that's what the PAT team is tasked to do. The PAT members will also look at alternatives to source involvement and compare costs among various scenarios. We will keep you apprised of their progress. You are also encouraged to contact the DCMC members of the PAT to discuss ideas and offer suggestions. Attachment 3 identifies the PAT team members.

The questions about the appropriateness of source inspection, particularly on smaller items, have been asked for months now. Contracting activities, particularly the DLA Supply Centers, are working on numerous initiatives to ensure that contracts delegated for source inspection (the most predominant for delegation of smaller contracts) need the expert skills of DCMC. You collected information on contractors for Defense Supply Center Columbus for a test of post delivery testing as an alternative to source inspection. Be prepared for more interaction with your customers in these types of initiatives.

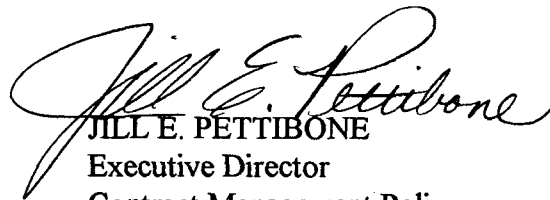
DCMC engagement is evident in DCMC Information Memorandum 97-31 (Study of Small Dollar Contracts). However more work needs to be done even before the PAT completes its activities. Not a week goes by that we don't hear from various CAOs about contracts delegated for source inspection that are commercial items or very small dollars. Last week one CAO told us

they were delegated a contract with a retail book store for two books. Other CAOs have reported contracts for commercial hardware as low as 14 cents. Clearly, source involvement in these cases is not warranted and is a prime candidate for helping our customers save money.

Here's a menu of activities you can and should be considering to ensure engagement in this area is value added:

- a. Contract review - if the item is for a commercial item or a small dollar value, confirm your involvement with the customer. If the item has a good quality history, ask the customer if they still need inspection; you probably have history on the contractor that they don't have -- share it. Ask the buyer to put the Certificate of Conformance (CoC) clause in the contract -- that will allow you to streamline your presence.
- b. Delegations to other CAOs - issuing delegations to other CAOs should be the exception not the rule. They should be written when data indicate such oversight is necessary.
- c. Management Councils - think about asking customers to put the CoC clause in their contracts. This gives you flexibility to streamline involvement and inspection. DCMC Phoenix is doing some interesting work in this area.
- d. Contractor performance - if a contractor has good historical performance data, we need to provide this information to our customers.
- e. Contractor Self Oversight - revisit and if appropriate, utilize the approaches outlined in DCMC Information Memorandum 97-0006.

Your success in these areas should begin to appear in the "Good News" section during the Monthly Management Reviews. I look forward to hearing your CAO's name mentioned by your District Commanders. We will share Good News stories with other CAOs. The POC is Mr. Dick Kane, Product & Manufacturing Assurance Team, AQOG, 703-767-2408.


JILL E. PETTIBONE
Executive Director
Contract Management Policy

Attachments



COMPTROLLER

**UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100**

MAY 29 1997



**MEMORANDUM FOR UNDER SECRETARIES OF DEFENSE
DIRECTOR, DEFENSE RESEARCH AND ENGINEERING
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES**

**INFO COPY: SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF**

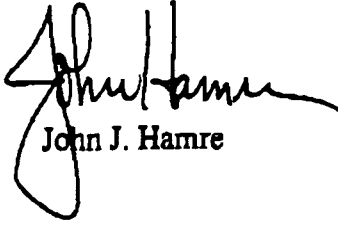
**SUBJECT: Management Reform Memorandum #10 -- Redesigning Department of Defense
Source Acceptance Policies and Procedures**

In conjunction with the Secretary's intention to undertake a revolution in business practices, it is apparent that we need to reassess our policies and procedures as they relate to source-acceptance of manufactured goods. Currently the Department requires nearly 200,000 separate stock items be inspected at the factory by U.S. Government inspectors prior to accepting delivery of the goods. While source acceptance is an important element of the Department's quality assurance program, it necessitates significant expense and requires government-unique business systems and practices. Commercial source-acceptance business procedures, by contrast, are significantly less expensive with no apparent loss effectiveness.

The Acting Under Secretary of Defense (Acquisition and Technology) (USD(A&T)) has previously tasked the Commander of the Defense Contract Management Command (DCMC) to eliminate unnecessary government source inspections for micro-purchases of both commercial and non-commercial items. I am asking that this review be broadened into a comprehensive reassessment of our source acceptance policies and procedures. With the participation of the appropriate staff from the USD(A&T), the Department of Defense Inspector General and the Military Departments, the DCMC Commander's review should include a full accounting for all government steps and costs in the source acceptance process, and compare them to alternative methods. I would also ask the Commander, DCMC, in conjunction with the Military Departments, to undertake a review of the existing stock items designated for source acceptance to ascertain whether or not they still merit that designation.

Your cooperation in supporting this evaluation will be appreciated.

In approximately two weeks from the date of this memorandum, I will have my secretary arrange for a meeting with the Task Force to obtain a status report on how this effort is proceeding.



John J. Hamre



ACQUISITION AND
TECHNOLOGY

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-3010



MAR 20 1997

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
DIRECTORS OF THE DEFENSE AGENCIES
COMMANDER, DEFENSE CONTRACT MANAGEMENT COMMAND
COMMANDER IN CHIEF, SPECIAL OPERATIONS COMMAND
DIRECTOR, DEFENSE EVALUATION SUPPORT ACTIVITY
DIRECTOR, DOD EDUCATION ACTIVITY
DIRECTOR, OFFICE OF CHAMPUS
PRESIDENT, USUHS
DIRECTOR, WASHINGTON HEADQUARTERS SERVICE

SUBJECT: Micro-purchases

I am concerned with the volume of contracts and purchase orders being awarded by the Department for micro-purchases (procurements at or below the micro-purchase threshold of \$2,500 (\$2,000 for construction)). You are reminded that the Governmentwide commercial purchase card is the preferred method of procurement for micro-purchases.

Effective October 1, 1997, contracting officers shall not award contracts or purchase orders for micro-purchases of commercial items unless a written determination is made by a member of the Senior Executive Service, Flag Officer, or General Officer that:

- the source or sources available for the supply or service do not accept the purchase card (or other method of micro-purchase listed in the next paragraph), and the contracting activity is seeking a source that accepts the purchase card (or other method of micro-purchase listed in the next paragraph); or
- the nature of the supply or service necessitates a contract or purchase order so that terms and conditions can be specified (e.g., safety critical parts that require government source inspection).

A written determination is not required when placing orders against existing contracts, making purchases under Blanket Purchase Agreements, using SF-44s, issuing contracts or purchase orders that use the purchase card as the method of payment, or when issuing contracts or purchase orders that will be performed



entirely outside of any State, territory, or possession of the United States, the District of Columbia, and the Commonwealth of Puerto Rico.

I direct the Commander, Defense Contract Management Command, to establish a process action team (PAT) composed of representatives from the Military Departments and Defense Agencies. The team will conduct a comprehensive review, and develop recommendations to (1) increase the use of the purchase card for micro-purchases of commercial items; and (2) eliminate unnecessary government source inspections for micro-purchases of both commercial and non-commercial items. The PAT will start this effort immediately and issue a final report within six months of the date of this memorandum.

A handwritten signature in dark ink, appearing to read "Noel Longuemare", with a long horizontal flourish extending to the right.

R. NOEL LONGUEMARE

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